

State of Idaho

Legislative Services Office

Management Report

A communication to the Joint Finance-Appropriations Committee

PUBLIC UTILITIES COMMISSION

FY 2004, 2005, and 2006

Report IC90006
Date Issued: July 19, 2007

Serving Idaho's Citizen Legislature

FOREWORD

PURPOSE OF REPORT

We evaluated the internal controls over financial operations of the Public Utilities Commission as part of our effort to evaluate each State agency at least once every three years. This report summarizes the results of our evaluation.

SCOPE OF WORK

The management of the Commission is responsible for establishing and maintaining internal controls. We obtained an understanding of the relevant policies and procedures comprising the internal control system. We also determined whether the relevant policies and procedures had actually been placed into operation. Our intent was to indicate where internal controls could be improved in order to help ensure the Commission's ability to record, process, summarize, and report financial data accurately.

AUDIT AUTHORIZATION

Reported to the Joint Finance-Appropriations Committee as directed by the Legislative Council of the Idaho Legislature, authorized by Idaho Code, Section 67-429.

ASSIGNED STAFF

Jim Combo, CPA, Auditor-in-Charge
Sally Fong, Staff Auditor

ADMINISTRATION AND TECHNICAL REVIEW

Don H. Berg, CGFM, Manager, Legislative Audits Division
Eugene Sparks, CPA, Managing Auditor

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EXECUTIVE SUMMARY LEGISLATIVE AUDITS

PUBLIC UTILITIES COMMISSION

PURPOSE AND SCOPE. We performed certain audit procedures to evaluate the effectiveness of the Public Utilities Commission's internal control design and operation. The limited scope of our procedures does not allow us to give an opinion on the Commission's internal control system. Accordingly, we do not express an opinion or ensure that all instances of internal control weaknesses were disclosed. Our purpose was to indicate where internal controls could be strengthened to help ensure accurate financial statements and data. Any findings and recommendations are intended to improve the internal control system to prevent errors, omissions, misrepresentations, or fraud.

CONCLUSION. We noted no matters involving the internal control over the Commission's financial reporting or its operation that we considered to be material weaknesses. However, our consideration of internal controls would not necessarily disclose all matters considered to be a material weakness.

FINDINGS AND RECOMMENDATIONS. There are no findings and recommendations in this report or the prior report.

AGENCY RESPONSE. The Commission has reviewed the report and is in general agreement with its contents.

FINANCIAL SUMMARY. The following financial data is presented for informational purposes only.

PUBLIC UTILITIES COMMISSION – FY 2006 FINANCIAL SUMMARY

	Beginning Cash Balance	Receipts	Total Funds Available	Disbursements	Losses	Ending Cash Balance
STATE ACCOUNTS						
Public Utilities Commission						
Regulatory Fund 0229	\$4,531,217	\$4,516,755	\$9,047,972	\$(4,181,706)	\$0	\$4,866,266
Federal Fund 0348	79,558	31,929	111,487	(44,171)	0	67,316
OUTSIDE ACCOUNTS						
Universal Service Fund	228,195	2,086,999	2,315,194	(1,954,758)	0	360,436
ID Telephone Service Assistance Program	1,076,021	745,654	1,821,675	(724,516)	0	1,097,159
Telecommunications Relay Service Fund	295,327	506,202	801,529	(348,537)	0	452,992
Revenue Sharing Fund	547,646	4,583	552,229	(552,229)	0	0
QPAP Fund	32,751	2,606	35,357	(3,565)	0	31,792
Toll Restriction Fund	683,568	28,499	712,067	(150)	(7,307)	704,610

The Regulatory Fund (0229) is the Commission's main operating fund.

The Federal Fund (0348) receives federal reimbursement and records the federal share of expenditures incurred to operate the Pipeline Safety Program.

The Universal Service Fund is established in Idaho Code, Section 62-610 for the purpose of maintaining a universal local exchange service at reasonable rates throughout the State. The funds are from a surcharge on all local exchange services. This fund is maintained by a contract administrator in a private bank account and is not subjected to our audit procedures.

The Idaho Telephone Service Assistance Program is established in Idaho Code, Section 56-901. Although this code identifies the Idaho Department of Health and Welfare as the administrator, the Commission has the authority to invoke a surcharge on the telecommunication carriers. This fund is used to cover the cost of improving residential basic local exchange service to eligible subscribers. Included in the ending cash balance at June 30, 2006, are investments of \$395,500. The Department of Health and Welfare determines who is eligible, and the Commission pays the providers of this service for all eligible subscribers in its service delivery area. Eligibility is determined by criteria established by the Department of Health and Welfare, based solely on income or other factors directly related to income. This fund is maintained by a contract administrator in a private bank account and is not subjected to our audit procedures.

The Telecommunication Relay Service Fund is established in Idaho Code, Section 61-1304 for the purpose of providing service to individuals who are hearing or speech impaired. The funds are from rates paid by telephone corporations providing basic local exchange service within the State, as determined by the Commission. This fund is maintained by a contract administrator in a private bank account and is not subjected to our audit procedures.

The Revenue Sharing Fund was established to deposit funds related to the Idaho Telecommunications Act of 1988, which established that long distance and other non-basic telephone services were no longer regulated by the Commission. Qwest owned facilities that generated revenues from both local telephone services that are still regulated by the Commission, and long distance services that are no longer regulated by the Commission. Qwest and the Commission reached a revenue sharing agreement in which Qwest would make available, for a set period of time, a portion of the revenues from the multi-use facilities to be spent as directed by the Commission. On August 12, 1997, the Commission issued Order #27100, directing Qwest to deposit the last of the funds from this agreement into the Revenue Sharing Fund. The funds were used to reimburse Qwest for half of the cost of replacing lead-wrapped power lines throughout the State. The balance in the fund at December 31, 2005, was \$0. This fund is maintained by a contract administrator in a private bank account and is not subjected to our audit procedures.

The QPAP Fund was established to deposit funds from penalties paid by Qwest for violations of the Qwest Performance Assurance Plan (QPAP). The QPAP is an agreement between Qwest, the Federal Communications Commission (FCC), and the State of Idaho that provides specific standards for Qwest's delivery of services to competitor telecommunications companies, and sets automatic penalties if standards are not met. The deposits in this fund are penalties related to this agreement. This fund is maintained by a contract administrator in a private bank account and is not subjected to our audit procedures.

The Toll Restriction Fund was established to deposit funds from Qwest. Qwest had collected set-up fees from new customers for toll-restriction service that blocks the use of the phone for long distance calls. The fees were collected in violation of Commission Order #27785, which prohibits such fees. The Commission ordered Qwest to refund the fees to its current customers, and Qwest complied. However, some of Qwest's customers, who had been erroneously charged the fee, were no longer Qwest customers. Commission Order # 28862, dated September 1, 2001, directed Qwest to deposit \$643,639 into this account, which represents the amount

due to the customers no longer with Qwest. Included in the ending cash balance of the Toll Restriction Fund at June 30, 2006, are investments of \$687,182. This fund is maintained by a contract administrator in a private bank account and is not subjected to our audit procedures.

OTHER ISSUES. We discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

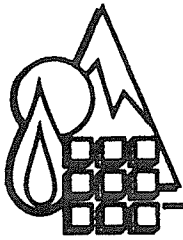
This report is intended solely for the information and use of the Public Utilities Commission and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance provided to us by the Commission.

QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:
Don H. Berg, CGFM, Manager, Legislative Audits Division
Eugene Sparks, CPA, Managing Auditor

Report IC90006

AGENCY RESPONSE



**IDAHO
PUBLIC UTILITIES
Commission**

C.L. "Butch" Otter, Governor

P.O. Box 83720, Boise, Idaho 83720-0074

**Paul Kjellander, President
Marsha H. Smith, Commissioner
Mack A. Redford, Commissioner**

June 20, 2007

Don H. Berg, CGFM
Supervisor, Legislative Audits
Statehouse
Boise, ID 83720-0054

Dear Mr. Berg:

The fiscal/compliance audit of the Idaho Public Utilities Commission was completed for the fiscal years ended June 30, 2004, 2005, and 2006. The management report on internal control did not have any findings or recommendations that required a response from the Commission. We believe the report demonstrates the adequacy and accuracy of the Commission's fiscal records, reliability of our internal controls, and our compliance with various state and federal requirements. We appreciated the experience and professionalism of the Legislative Audits staff as it conducted the audit.

Sincerely,

Paul Kjellander
President

APPENDIX

HISTORY

The Public Utilities Commission of Idaho was established by the 12th session of the Idaho Legislature and organized in May 1913. The Commission was composed of three members vested with the authority and responsibility of regulating railroads, street railways, common carriers, pipelines, gas corporations, electric corporations, telephone corporations, telegraph corporations, and public wharves and warehouses.

The Commission was reorganized in 1951, by legislative action, and renamed the Idaho Public Utilities Commission. This change required gubernatorial appointment of the commissioners and confirmation by the Idaho Senate. Title 61, Chapter 1, Idaho Code, was also amended to define those public utilities subject to regulation as every common carrier, pipeline corporation, gas corporation, electrical corporation, telephone corporation, telegraph corporation, water corporation, and wharfinger.

STATUTORY AUTHORITY

Authority for the establishment and operation of the Public Utilities Commission is set forth in Idaho Code, Title 61, Chapters 1 through 7 and 13, and Title 62, Chapter 6.

Chapters 1 through 7 contain laws regulating all public utilities except air carriers. Chapter 13, is the Telecommunications Relay Service, and authorizes the Commission to supervise the establishment of a statewide telecommunications relay service. This program is intended to deliver message relay services to hearing and speech impaired persons within the State of Idaho. Title 62, Chapter 6, the Telecommunications Act of 1988, allows certain kinds of telephone corporations the authority to opt out of traditional regulation under Chapters 1 through 7, Idaho Code, and requires others to be subject to its regulation. Chapter 6 also established the Universal Service Fund for the purpose of maintaining the universal availability of local exchange service at reasonable rates throughout the State of Idaho.

PURPOSE

The purpose of the Public Utilities Commission is to regulate every public utility within the State of Idaho. The law gives the Commission the power and duties necessary and incidental to the regulation of public utilities in State.

FUNDING

The Commission receives the majority of its revenue from regulated utility companies and railroads. Chapter 10, Title 61, Idaho Code, outlines the formula and fee schedule used to assess utilities and railroads. This revenue is used by the Commission for expenses associated with supervising and regulating public utilities and railroad corporations subject to its jurisdiction.

ORGANIZATION

The Commission is comprised of three members appointed by the Governor and confirmed by the Senate. Only two members may belong to the same political party. The Commission's staff of 49 employees is divided into three divisions: administrative, legal, and utilities. The staff consists of engineers, rate analysts, accountants, investigators, economists, and other support personnel. The staff analyze rate increase requests and applications for operating certificates, investigate complaints, and present recommendations on these matters to the Commission.

5	Deputy A.G.
49	Authorized Full Time Equivalent Positions

